

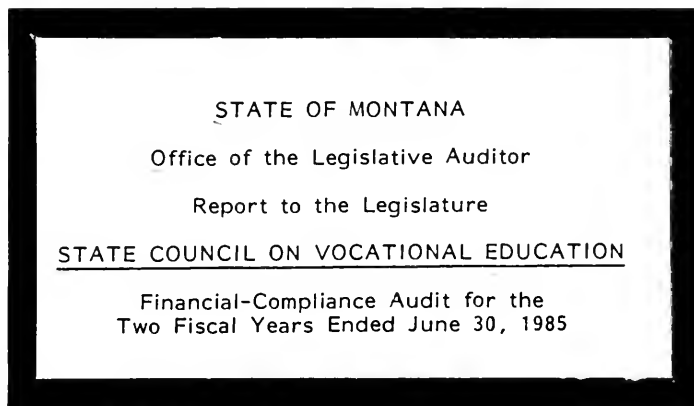
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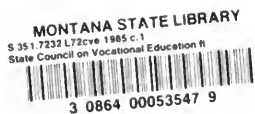
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OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MONTANA
STATE CAPITOL • HELENA





STATE OF MONTANA
Office of the Legislative Auditor
Report to the Legislature
STATE COUNCIL ON VOCATIONAL EDUCATION
Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1985

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office.

Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Members of the Legislative Audit Committee:

Senator Judy Jacobson, Chairman	Representative Steve Waldron,
Senator Dave Fuller	Vice Chairman
Senator Pat Goodover	Representative John Cobb
Senator Tom Keating	Representative Roland Kennerly
	Representative Bruce Simon

Audit staff involved in this audit include:

Wayne Kedish, Manager
Julie Barr, Supervisor
Lois Cearley, Senior Auditor
John Fine, Staff Auditor

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



SCOTT A. SEACAT
LEGISLATIVE AUDITOR

November 1985

DEPUTY LEGISLATIVE AUDITORS

JAMES GILLET
FINANCIAL COMPLIANCE AUDITS

JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

Included in this document is the financial-compliance report on the State Council on Vocational Education financial activity for fiscal years 1983-84 and 1984-85. The council's written response to audit recommendations is included in the back of the audit report.

We thank the Executive Director and Administrative Assistant for their cooperation and assistance throughout the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", with a stylized flourish extending from the end.

Scott A. Seacat
Legislative Auditor

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APPOINTIVE OFFICIALS

STATE COUNCIL ON VOCATIONAL EDUCATION

As of June 30, 1985

George McCallum, Chairperson
Duane Gebhardt
Ralph O. Godtland
Dr. Robert Hokom
Dr. Jon Jourdonnais
Patricia Kercher
Dr. Dennis Lerum
Glenn A. Roush
Colonel Gordon Simmons
Representative James Schultz
Dennis Theriault
Avis Ann Tobin
Representative Melvin Williams

All council members were appointed for two-year terms commencing March 1, 1985.

ADMINISTRATIVE OFFICIALS

Dr. Kathryn Penrod
Kristine Roby

Executive Director
Administrative Assistant

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

Page

Recommendation #1

The council:

- | | |
|---|---|
| A. Record expenditures in the proper fiscal year. | 3 |
|---|---|

Agency Response: Concur. See page 17.

- | | |
|--|---|
| B. Limit expenditures to the amount authorized by the Legislature. | 3 |
|--|---|

Agency Response: Concur. See page 17.

Recommendation #2

The council comply with appropriation law by spending in accordance with its approved operating plan.	3
---	---

Agency Response: Concur. See page 17.

INTRODUCTION

We performed a financial-compliance audit of the State Council on Vocational Education for the two fiscal years ended June 30, 1985.

The objectives of our audit were to: 1) determine if the council's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1985; 2) determine if the council complied with significant applicable laws and regulations; and 3) provide recommendations for improvement in management and internal controls.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. If we determined that significant costs are associated with implementation of a recommendation, we disclose the cost in each report section.

We thank the Executive Director and Administrative Assistant for their assistance and cooperation during the audit.

BACKGROUND

The Montana Advisory Council for Vocational Education was created in 1969 by executive order to comply with the federal Education Amendments Act of 1976 (Public Law 94-482). The Carl Perkins Vocational Education Act of 1984 required a change in the name of the Montana Advisory Council for Vocational Education to the State Council on Vocational Education and limited membership on the council to 13 members. Under the new federal law, the council will take a more active role and will be a partner in the planning and evaluation process concerning vocational education in the state. The council is funded entirely from federal vocational education funds and must exist in order for Montana to receive the federal funds. Expenditures of the council were \$95,140 for fiscal year 1983-84 and \$96,428 for fiscal year 1984-85.

The council's purpose is to ensure that vocational programs, services, and activities in Montana are functioning efficiently and are available to all persons who need and can benefit from them.

At June 30, 1985, the council had 13 members who represent various occupations, backgrounds, and geographic locations in the state. The diversity of membership is a federal requirement to facilitate input from Montana's citizens.

Under federal guidelines, the council assists the "sole state agency or board" responsible for vocational education. As of July 1, 1979, the Legislature designated the Office of Public Instruction as the agency to serve in this capacity. The major responsibilities of the council are:

1. To work with the sole state agency (a) in the development of the three-year State Plan for Vocational Education and the annual program, and (b) on policy matters arising out of the administration of these plans and reports;
2. To assist the sole state agency in developing plans for evaluations of vocational education and to monitor these evaluations;
3. To evaluate the effectiveness of the vocational education program and advise the Governor, the sole state agency, State Job Training Coordinating Council, the U.S. Secretary of Education, and the U.S. Secretary of Labor in writing of these recommendations.
4. To consult with the State Job Training Coordinating Council, and identify vocational education, employment and training needs of the state and assess the extent to which vocational education, employment training, vocational rehabilitation, special education, and other programs assisted under federal law and related Acts represent a consistent, integrated, and coordinated approach to vocational education in the state.

The council employs two staff members to assist in carrying out these responsibilities.

APPROPRIATIONS

Excess Spending

The council recorded telephone expenses incurred during fiscal year 1983-84 in fiscal year 1984-85. As a result, fiscal year 1983-84 expenditures were understated by \$481. Since the council

had only \$81 of appropriation authority remaining for fiscal year 1983-84, the council exceeded its appropriation authority by \$400.

Section 17-8-103, MCA, prohibits spending or otherwise incurring obligations within one fiscal year in excess of appropriation authorized by the Legislature or through a valid budget amendment.

RECOMMENDATION #1

WE RECOMMEND THE COUNCIL:

- A. RECORD EXPENDITURES IN THE PROPER FISCAL YEAR.
- B. LIMIT EXPENDITURES TO THE AMOUNT AUTHORIZED BY THE LEGISLATURE.

Operating Plans

The council exceeded its approved operating plan amounts for personal services expenditures by \$1,897 in fiscal year 1983-84 and \$4,322 in fiscal year 1984-85.

House Bill 447, Section 7, Laws of 1983, states that expenditures may be made only in accordance with operating budgets approved by the approving authority (the Governor's Office of Budget and Program Planning). Each operating budget shall include expenditures detailed by personal services, operating expenses, equipment, benefits and claims, transfers and local assistance.

RECOMMENDATION #2

WE RECOMMEND THAT THE COUNCIL COMPLY WITH APPROPRIATION LAW BY SPENDING IN ACCORDANCE WITH ITS APPROVED OPERATING PLAN.

INDIRECT COST REIMBURSEMENT

The council did not negotiate for reimbursement of indirect costs associated with its program in fiscal year 1983-84. Therefore, indirect costs of \$3,520 for services rendered by other state agencies could not be recovered.

However, the council did negotiate a reimbursement rate and received reimbursement for fiscal year 1984-85 indirect costs. Because this issue has been resolved we make no recommendation.

FEDERAL GRANT COMPLIANCE

Our audit of federal moneys was performed in accordance with the requirements in the U.S. Office of Management and Budget (OMB) "Circular A-102, Attachment P." This circular provides for independent audits of financial operations, including compliance with certain federal laws and regulations.

We reviewed major compliance areas in the State Council for Vocational Education grant. The areas reviewed included compliance with specific grant provisions regarding reporting requirements and cost allowability. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

INTERNAL CONTROL

We have examined the financial schedules of the State Council on Vocational Education for the two fiscal years ended June 30, 1985. We issued our opinion dated September 20, 1985, on these statements. As part of our examination, we made a preliminary study and evaluation of the systems of control of the council. Our study evaluated the systems as required by generally accepted governmental auditing standards for financial and compliance audits. We classified the controls in the following categories:

1. expenditures and payroll;
2. cash;
3. property, plant, and equipment; and
4. revenue.

We did not test the internal controls for the State Council on Vocational Education because we determined the audit could be performed more efficiently by performing substantive tests. We did not evaluate the control systems to the extent necessary to give an opinion on either individual segments or the systems as a whole.

The management of the State Council on Vocational Education is responsible for establishing and maintaining systems of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluations should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the systems. Accordingly, we do not express an opinion on the systems of controls used by the State Council on Vocational Education.

The preceding three paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

RECOMMENDATIONS OF PRIOR AUDIT

Our office performed an audit of the council for the two fiscal years ended June 30, 1983. The report contained three recommendations which are still applicable to current council operations. The council concurred with and implemented all three of the recommendations.

AUDITOR'S REPORT AND AGENCY FINANCIAL SCHEDULES

SUMMARY OF AUDIT OPINION

We issued an unqualified opinion on the State Council on Vocational Education financial schedules. An unqualified opinion means that the schedules are fairly stated in all material respects and that the user of this SBAS information can rely on the information presented.

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



SCOTT A. SEACAT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS

JAMES GILLET
FINANCIAL COMPLIANCE AUDITS

JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

The Legislative Audit Committee of the Montana State Legislature:

We have examined the Schedule of Changes in Fund Balance; the Schedule of Revenue - Estimated and Actual; the Schedule of Expenditures by Fund - Budget and Actual; and the Schedule of Expenditures by Object of the State Council on Vocational Education for the fiscal years ending June 30, 1984 and 1985. Our examination was made in accordance with generally accepted governmental auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

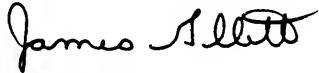
As described in Note 1 to the financial schedules, the council's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the schedules referred to above present fairly the results of operations and the changes in fund balance of such funds of the State Council on Vocational Education for the two fiscal years ending June 30, 1984 and 1985, in conformity with the basis of accounting described in Note 1, which has been applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the SBAS financial schedules taken as a whole. The accompanying Schedule of Federal Grant Receipts and Expenditures is presented for additional analysis and disclosure purposes and is not a required part of the basic financial schedules of the State Council on Vocational Education. The schedule has been subjected

to the tests and auditing procedures applied in the examination of the SBAS financial schedules and, in our opinion, is fairly stated in all material respects in relation to the SBAS financial schedules taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett". The signature is fluid and cursive, with the first name "James" being more legible than the last name "Gillett".

James Gillett, CPA
Deputy Legislative Auditor

September 20, 1985

STATE COUNCIL ON VOCATIONAL EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCE
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

	<u>Special Revenue Fund</u>
FUND BALANCE, July 1, 1983	\$ 34,471 ¹
ADDITIONS:	
Fiscal Year 1983-84 Revenue	95,290
Fiscal Year 1984-85 Revenue	<u>96,437</u>
Total Additions	<u>191,727</u>
REDUCTIONS:	
Fiscal Year 1983-84 Expenditures	95,140
Prior Year Expenditure Adjustments	150
Direct Entries to Fund Balance Fiscal Year 1983-84	34,471 ¹
Fiscal Year 1984-85 Expenditures	96,428
Prior Year Expenditure Adjustments	<u>59</u>
Total Reductions	<u>226,248</u>
FUND BALANCE, JUNE 30, 1985	<u>\$ (50)²</u>

¹The council did not defer revenue at June 30, 1983. As a result, beginning fund balance was overstated by \$34,471. The direct entry to fund balance corrected the fund balance overstatement and allowed the revenue to be recorded in the proper year.

²The negative \$50 fund balance is the result of deferring \$50 too much revenue at June 30, 1985.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 14 through 15.

STATE COUNCIL ON VOCATIONAL EDUCATION
SCHEDULE OF REVENUE - ESTIMATE AND ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

	<u>Federal Assistance</u>
<u>FISCAL YEAR 1983-84</u>	
Special Revenue Fund	
Estimated Revenue	\$ 94,000
Actual Revenue	95,290
Collections	
Over (Under) Estimates	<u>\$ 1,290</u>
 <u>FISCAL YEAR 1984-85</u>	
Special Revenue Fund	
Estimate Revenue	\$102,772
Actual Revenue	96,437
Collections	
Over (Under) Estimates	<u>\$ (6,335)</u>

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 14 through 15.

STATE COUNCIL ON VOCATIONAL EDUCATION
SCHEDULE OF EXPENDITURE BY FUND - BUDGETED AND ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

Program
Administration

FISCAL YEAR 1983-84

SPECIAL REVENUE FUND

Budget	\$ 95,221
Actual	
Personal Services	55,864
Operating Expenses	38,827
Equipment	449
Total Actual	<u>95,140</u>
Unspent Budget Authority	<u>\$ 81</u>

FISCAL YEAR 1984-85

SPECIAL REVENUE FUND

Budget	\$104,003
Actual	
Personal Services	57,771
Operating Expenses	38,657
Total Actual	<u>96,428</u>
Unspent Budget Authority	<u>\$ 7,575</u>

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 14 through 15.

STATE COUNCIL ON VOCATIONAL EDUCATION
SCHEDULE OF EXPENDITURES BY OBJECT
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

	<u>FY 1983-84</u> <u>Program</u> <u>Administration</u>	<u>FY 1984-85</u> <u>Program</u> <u>Administration</u>
PERSONAL SERVICES		
Salaries	\$44,568	\$46,418
Other Compensation	2,687	2,062
Employee Benefits	8,609	9,291
Total Personal Services	<u>55,864</u>	<u>57,771</u>
OPERATING EXPENSES		
Contracted Services	8,129	6,273
Supplies and Materials	1,180	1,572
Communications	5,260	6,467
Travel	18,915	17,921
Rent	3,710	3,700
Repair and Maintenance	545	871
Other Expenses	1,088	1,853
Total Operating Expenses	<u>38,827</u>	<u>38,657</u>
EQUIPMENT		
Equipment	<u>449</u>	<u>-0-</u>
Total Equipment	<u>449</u>	<u>-0-</u>
TOTAL PROGRAM EXPENDITURES	<u>\$95,140</u>	<u>\$96,428</u>

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 14 through 15.

STATE COUNCIL ON VOCATIONAL EDUCATION

NOTES TO THE FINANCIAL SCHEDULES

1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

The State Council on Vocational Education consists of members from business, employment services, and the education field who assist the Office of Public Instruction on planning and evaluating vocational education programs in Montana.

A. Basis of Presentation

The financial schedules are prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following fund type is used by the State Council on Vocational Education:

Special Revenue Fund - accounts for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. Legislative appropriation is required to spend from this fund.

B. Basis of Accounting

The state of Montana utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual. Under the modified accrual basis of accounting, a valid obligation exists when the associated liability is incurred except for the following items which are also considered valid obligations under state accounting policy:

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.

- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.
- Obligations for employees' vested annual leave and sick leave are recorded as expenditures when paid.
- Grant revenue not expended at fiscal year-end is deferred into the following fiscal year.

2. ANNUAL AND SICK LEAVE

Employees at the council accumulate both annual and sick leave. Employees are paid for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the financial schedules of the State Council on Vocational Education. Expenditures for termination pay currently are absorbed in the annual operational costs of the council. At June 30, 1985, the council has a liability of \$887 for vacation leave and \$831 for sick leave.

3. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS). The council's contributions to this plan are shown below:

	<u>Fiscal Year 1983-84</u>	<u>Fiscal Year 1984-85</u>
PERS	\$2,862	\$2,981

4. GENERAL FIXED ASSETS

The council records assets on the state's Property and Accountability Management System. Equipment balance at June 30, 1985, was \$5,956.

STATE COUNCIL ON VOCATIONAL EDUCATION
SCHEDULE OF FEDERAL GRANT RECEIPTS AND DISBURSEMENTS
FISCAL YEARS ENDING JUNE 30, 1984 AND 1985¹

Federal Grantor Agency:

United States Department of Education

	<u>Award Amount</u>	<u>Receipts</u>	<u>Disbursements</u>
Fiscal year 1983 grant received in 1983 expended in fiscal year 1984.			\$34,472
Fiscal year 1984 grant received in 1984 and expended in 1984.	\$ 94,000	\$73,005	60,818
Fiscal year 1984 grant received in 1984 and expended in fiscal year 1985.			12,187
Fiscal year 1984 grant received in 1985 and expended in 1985.		20,995	20,995
Fiscal year 1985 grant received in 1985 and expended in 1985.	102,772	73,963	63,306
Indirect Cost paid in fiscal year 1984-85.			2,243

¹This schedule is prepared on the cash basis. Receipts and disbursements on this schedule do not equal the revenues and expenditures presented on the financial schedules. The financial schedules presented on pages 10, 11, 12, and 13 are prepared on the modified accrual basis of accounting.

AGENCY RESPONSE

MONTANA COUNCIL ON VOCATIONAL EDUCATION



EXECUTIVE MANAGEMENT BUILDING

1228 11TH AVENUE

STATE OF MONTANA

(406) 444-2964

HELENA, MONTANA 59620

KATHRYN M. PENROD, PH.D.
EXECUTIVE DIRECTOR

October 16, 1985

MEMBERS

George McCallum
Chairman
Gordon Simmons
Vice-Chairman
Duane Gebhardt
Ralph Godtland
Robert Hokom
Jon Jourdonnais
Patricia Kercher
Dennis Lerum
Glenn Roush
James Schultz
Dennis Theriault
Avis Ann Tobin
J. Melvin Williams

Mr. Scott Seacat
Office of the Legislative Auditor
Room 135, State Capitol
Helena MT 59620

Dear Mr. Seacat:

The chairman and the executive director of the Montana Council on Vocational Education have received and reviewed the "Financial-Compliance Audit" for the two fiscal years ending June 30, 1985.

The Council concurs with Recommendation 1. In the future, the council and staff will record expenditures in the proper year and limit expenditures to the amount authorized by the legislature.

The Council concurs with Recommendation 2. In the future, the council and staff will manage their expenditures based on an approved operational plan. When (based on valid anticipated expenditure) a revision to the operational plan is needed, an amended plan will be submitted to the Office of Budget and Program Planning.

Thank you for conducting the audit and for your willingness to work within the existing employment schedule of current staff. Your pleasant attitude makes the process of an audit comfortable and educational.

Sincerely,

Kathryn M. Penrod, Ph.D.
Executive Director

KMP:lcw

Senator George McCallum
Chairman

